



July 24, 2003

Mr. Bob Paternoster
City of Sunnyvale
456 West Olive Avenue
Sunnyvale, California 94088-3707

Re: General Plan Amendment

Dear Bob:

This is to request consideration of a General Plan amendment for the block bounded by Washington Ave., Sunnyvale Ave., Iowa Ave., and Mathilda Ave. to increase the residential entitlement from 200 units to 300 units and the office entitlement from 202,000 sq. ft. to 300,000 sq. ft.

We believe that our proposed project on this block should be a mix of retail, office and residential uses. For this mix of uses to succeed, each use must have a critical mass. We are convinced that we can design and build a project in which these uses will be symbiotic. We are equally convinced that this amount of development is required in order for the project to be financially viable.

If the City agrees to study a General Plan amendment of this nature, we intend to prepare a development plan which will demonstrate to the City that this mix of uses is not only acceptable, but also extremely desirable from the City's perspective. We understand that the initiation of the study in no way commits the City to approve a General Plan amendment, and that the burden is upon us to prove its desirability.

Thank you for your consideration. Attached is a more detailed justification for our request.

Sincerely,

A handwritten signature in black ink, appearing to read 'Ronald B. Pfohl', written over a horizontal line.

Ronald B. Pfohl
Managing Member

FORUM DEVELOPMENT GROUP, LLC
300 VILLAGE GREEN CIRCLE, SUITE 200
SMYRNA, GA 30080
T. 770.801.9886 F. 770.805.8898



July 23, 2003

Mr. Bob Paternoster
City of Sunnyvale
456 West Olive Avenue
Sunnyvale, California 94088-3707

Re: Consideration for a General Plan Amendment

Dear Bob:

Forum Development Group, LLC is genuinely excited about the opportunity to re-develop Sunnyvale Town Center. Although the project has presented a number of unique challenges, Bill Brown and I continue to remain steadfast in our belief that the re-developed Forum at Sunnyvale Town Center will ultimately be the catalyst for transforming the downtown district into a vibrant central business district. We continue to be encouraged by the feedback that we receive from both the community and the prospective tenants for the project.

Having endured (i) the prolonged deterioration of Sunnyvale Town Center and along with it, the deterioration of the core of its downtown, (ii) the false starts with American Mall Properties and Harvest Partners, and (iii) the subsequent bankruptcy of the property, the citizens of Sunnyvale, City Staff, the Planning Commission, and the City Council have good cause to be leery when considering the re-development plans. Bill Brown and I are keenly aware of the political sensitivity of this project. Although we are certain that we will never get all of the members of the City Staff, Planning Commission, and City Council to fully agree on all of the development issues, we are certain that there is unanimous agreement that Sunnyvale Town Center needs to be fixed. The city blocks that Sunnyvale Town Center sits on are too important for the long term viability of the downtown area and the execution of the newly adopted Downtown Design Plan.

Despite having the opportunity to meet with various Planning Commissioners, City Council members, and members of City Staff, we do not believe that we have effectively communicated the reasoning behind the scope of the proposed project, the financial hurdles we need to clear to make the project economically feasible, nor the short term and long term financial benefits that Sunnyvale would realize from the project.

As you are aware, this project has many nuances that are a result of its marred past. It is important that the citizens of Sunnyvale, as well as its governing officials understand that the re-development plan that is being presented for approval embodies a mix of uses and

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proposed densities for each of those uses that we believe will offer the best project for Sunnyvale. We believe the proposed re-development plan addresses a long term view of the property and is consistent with the vision that was created by the Downtown Design Plan.

From the beginning, our vision of the property has been to create an "open air" mixed-use project that would re-create a new epicenter for downtown Sunnyvale. Our proposed plans and proformas have consistently been comprised of approximately 950,000 square feet of retail, 300,000 square feet of office, and 300 housing units. It is our professional opinion that the proposed density of the project, while complying with the Environmental Impact Report and creating an economically feasible project, creates the best possible project for Sunnyvale.

Retail

The Forum at Sunnyvale Town Center proposes 950,000 square feet of retail gross leaseable area. Although, the Silicon Valley is currently suffering from a major recession, the retail market remains healthy by almost any measure. Retail sales in the major malls in The Silicon Valley are still among the highest in the country. In fact, if Sunnyvale Town Center and Valco Mall were taken out of the market, retail space in the Silicon Valley area would carry a mere 5% vacancy rate. Furthermore, the problems of both Valco Mall and Sunnyvale Town Center can be easily attributed to physical obsolescence and management missteps.

Office

Unlike retail properties in the Silicon Valley, the office market has been decimated by the current recession. Several of the submarkets currently have 35% to 40% vacancy rates. In fact, one office study estimates that over 240,000 new jobs must be created in the Bay Area to get the office market back to a healthy 7% vacancy factor. Furthermore, it is estimated that it could take up to seven years for the office market to rebound.

Although The Forum at Sunnyvale Town Center is requesting approval for 300,000 square feet of office space, we do not intend to construct that amount in the beginning. Our intention is to initially build approximately 150,000 square feet and wait for the market to turn around before building the remaining 150,000 square feet. Although the office market is not experiencing positive absorption, there is a significant amount of activity. The vast majority of the lease transactions that are being consummated today are from the 2,000 to 10,000 square foot tenants whose leases have expired and are relocating to higher grade developments and taking advantage of the competitive rental rates. Our intention is to target this niche of office users by offering more amenities (including our proximity to Cal Tran) coupled with competitive rates. While most class A office buildings shy away from these smaller tenants in order to maintain the larger contiguous blocks of space, we intend to do just the opposite. We do not expect to lure a single user to absorb the initial 150,000 square feet of office space, but rather expect to attract smaller business owners that live in the Sunnyvale area and possibly in The Forum at Sunnyvale Town Center.

Forum Development believes that City approval of our request for 300,000 square feet of office would not significantly increase the overall parking requirements. We believe that our parking and traffic study will support our view that there are parking efficiencies unique to mixed-use projects. For example, since the highest periods of parking demands run at vastly different times and days of the week for the office component and the theater, we expect that the office component and theater will actually share the majority of their parking spaces (i.e. the greatest parking demand for the office component would be Monday through Friday, 8:30 am to 6:00 pm, while the greatest parking demand for the theater would be at night and on weekends).

In spite of the current office market conditions, we strongly believe that by taking a long term approach to this property, the office component will greatly add to the vibrancy of the downtown area. The combination of office, housing, retail/restaurants, and entertainment has worked well in various development s around the country. We believe that we can build on these successes and learn from their mistakes. What is abundantly clear, however, is that while the office, housing, and retail markets will forever cycle from highs to lows, they rarely cycle in tandem. That is, while "for sale" housing and retail properties are in favor today, the office and industrial markets are depressed. It is likely that "for sale" housing will eventually soften due to over building and rising interest rates and industrial properties could gain strength due to the need for more distribution centers for expanding retailers.

Housing

Although we have consistently shown three hundred housing units on our proformas and various plans, the percentage of rental units versus "for sale" units have shifted in response to the current housing market. We will continue to seek approval for a total of 300 housing units; however, we are proposing that the housing mix consist of 200 "for sale" units and 100 rental units.

Although the housing component is a crucial component of the overall project, Forum intends to sell the development rights to another developer. Without doing an executive search and hiring an experienced housing developer, Forum Development Group does not have an expertise in this area. Again, it is important to note that the sale of these development rights does not create a financial windfall for Forum Development Group. The sale of the development rights to a housing developer serves to reduce our economic basis in the property to help make the project financially feasible.

Furthermore, our recently completed housing study confirms that Sunnyvale is currently suffering from a dearth of "for sale" housing. By providing the city with 200 "for sale" housing units, Sunnyvale will be home to up to 200 new families that would otherwise be forced to purchase in some other municipality.

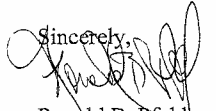
In summary, we are requesting that City Staff, the Planning Commission, and the City Council approve our request for the following:

- 950,000 square feet of retail gross leaseable area

- 300,000 square feet of office gross leaseable area
- 300 housing units

While we understand that City Staff, the Planning Commission, and the City Council have no obligation to approve our request, we would strongly urge that the city of Sunnyvale review the pros and cons of our request. Notwithstanding the financial benefits that the city will derive from the proposed project, we believe The Forum at Sunnyvale would be within the guidelines described in the Environmental Impact Report. Furthermore, we feel certain that the proposed re-development of the Sunnyvale Town Center Mall would be the catalyst for positive change envisioned by the stakeholders that authored the Downtown Design Plan. Finally, we feel strongly that given the opportunity to move forward with our proposed plan, the Forum at Sunnyvale Town Center would create a "sense of place" within the community and that the citizens of Sunnyvale would embrace the project as their own.

Sincerely,



Ronald B. Pfehl
Managing Member

cc: Bill Brown
Mark Calvert
Keith Wilson
David Wahl

FORUM JUSTIFICATIONS (submitted by applicant)

Forum Development Group, as the Master Developer, requests a Special Development Permit and an Amendment to the General Plan allowing for the redevelopment of the Sunnyvale Town Center Mall as follows:

Retail Square Footage	989,621
Theatre	60,000
Existing Macy's	177,000
Existing Target	152,621
New Ground Floor Retail	450,000
New Second Floor Retail	150,000
Office Square Footage	275,000
Total Office & Retail SF	1,264,621
Residential Units	300

Located on Block 18 as noted in the City of Sunnyvale's Downtown Specific Plan, adopted on October 14, 2003, the proposed project attains the objectives and purposes of the Downtown Specific Plan and conforms with the Downtown Specific Plan with the exception of a request for 100 additional housing units and an additional 98,000 square feet (25,000 square feet of that allocated to the Bank of the West site.)

A general plan amendment for the additional housing and office square footage has been submitted. Please refer to the staff report outlining the general plan amendment request: <http://sunnyvale.ca.gov/200308/rctcs/03-265.asp>.

ADDITIONAL HOUSING JUSTIFICATION

There is a severe shortage of housing in the Bay Area, including Sunnyvale. Sunnyvale is mandated by the State to supply 511 housing units a year or 3,836 units in the current planning period from 1999 to mid-2006. As of 2004, the City has supplied 1,562 and is short <1,504> units. From now until mid-2006, Sunnyvale is mandated to approve another 2,274 more units, which will be very difficult to do given previous approval rates.



Regional Housing Needs 1999-2006 Allocation

Justification	Jurisdiction Need	Uninc. SOI Need	Total Projected Need	Very Low	Low	Moderate	Above Moderate	Average Yearly Need
CAMPBELL	777	0	777	165	77	214	321	104
CUPERTINO	2,720	0	2,720	412	198	644	1,466	363
GILROY	3,710	36	3,746	906	334	1,030	1,476	499
LOS ALTOS	256	5	261	38	20	56	147	35
LOS ALTOS HILLS	83	0	83	10	5	15	53	11
LOS GATOS	385	17	402	72	35	97	198	54
MILPITAS	4,304	44	4,348	698	351	1,146	2,153	580
MONTE SERENO	74	2	76	10	5	13	48	10
MORGAN HILL	2,383	101	2,484	455	228	615	1,186	331
MOUNTAIN VIEW	3,420	3	3,423	698	331	991	1,403	456
PALO ALTO	1,278	119	1,397	265	116	343	673	186
SAN JOSE	25,542	572	26,114	5,337	2,364	7,086	11,327	3,482
SANTA CLARA	6,339	0	6,339	1,294	590	1,786	2,669	845
SARATOGA	538	1	539	75	36	108	320	72
SUNNYVALE	3,809	27	3,836	736	361	1,075	1,664	511
SANTA CLARA UNINCORPORATED	1,135	311	1,446	325	158	651	312	63
SANTA CLARA COUNTY TOTAL			57,991	11,424	5,173	15,659	25,735	7,732

Sunnyvale Housing Units									
Sunnyvale Housing Units Approved	1999	2000	2001	2002	2003	2004*	2005	to June 2006	To Date
Rental	426	32	20	23	327	42			870
For Sale	76	2	28	53	335	45			539
Accessory or Special Use	5	140	3	0	5	0			
Total	507	174	51	76	667	87		0	1562
State Mandated Requirements –ABAG	511	511	511	511	511	511	511	259	3836
Shortfall	(4)	(337)	(460)	(435)	156	(424)			
Cumulative Shortfall	(4)	(341)	(801)	(1,236)	(1,080)	(1,504)			(2,274)

* Includes 27 pending units as of 5-1-04

Preliminary Data Provided by City of Sunnyvale

New single family homes on Mary Avenue cost close to \$800,000 and are selling rapidly. The reason prices are so high is because the need for housing is far greater than the number of housing units that Sunnyvale is supplying. The average age in Sunnyvale is 35. We are not allowing our young community workers (teachers, policemen, firemen, tech workers) to buy homes in Sunnyvale. Sunnyvale's housing stock is over 50% rental. Many in the City wanted to see a larger percentage of "for sale" available. The Mall Development proposes 100% 'for sale' housing. The age of existing housing stock is reaching then end of its initial period usefulness with over 80% of housing units greater than 40 years in age.

Sunnyvale has little supply of raw land and therefore must creatively add higher density housing in locations where multi-family housing makes sense from a planning perspective. Downtown Sunnyvale is one of the best locations for higher density housing given the available retail services and nearby mass transit.

The EIR/Downtown Specific Plan, of which the Mall is a part of, has 192 unassigned housing units. These unassigned housing units were part of the traffic and other EIR studies, so no additional work needs to be done to utilize some of the unassigned units on the Mall block.

Use	Downtown Spec Plan Area (103 acres)		
	EIR	Approved	Available
Office	1,238,700	960,421	278,279
Retail	1,367,300	1,367,300	0
Housing	2,191	1,999	192

Use	Block 18 (36 acres)		
	EIR	Approved	Proposed
Office	308,000	202,000	To be determined
Retail	1,007,867	Same	
Housing	200	200	



Since Block 18 is one of the few large blocks in the Downtown Specific Plan area, it is the logical choice for utilizing the unallocated residential units. We need all the housing units that have been certified by the EIR to be built. There will still be 92 unallocated units.

Sunnyvale had heated debates in 2003 over the need for a higher housing mitigation fee from industrial developers because the severe housing shortage. People stepped forward to tell the Council their housing woes. It was hard not be sympathetic to their plight. But, what is the point of collecting housing mitigation money from commercial property developers while limiting construction of housing? Sunnyvale must provide as much as possible of both affordable and market rate housing. People can't live on rhetoric; they need the actual roof over their head.

If the community passes on the “logical” locations for higher density housing now, Sunnyvale may end up with higher density housing in areas which are not suited from a planning perspective for higher densities - single family neighborhoods.

If 300 units are built, 12.5% or 38 units would be below market rate units or “affordable units,” which helps Sunnyvale teachers, policeman and fireman be able to afford to live in the community they serve.

OFFICE

The proposed project is a mixed-use, open air retail mall. The concept is to create a “24-hour” Downtown by providing retail, housing and office uses which support and enhance each other. The office space is all above the ground floor retail along Mathilda Avenue, along a traffic corridor that is too busy for residential and not leasable to retailers. However, it is the perfect location for small local business owners, professional firms or medical providers. Sunnyvale has little Class-A space for these small business owners who tend to gravitate to more prestigious markets in Santa Clara or Cupertino if they are image conscious or Palo Alto or Downtown San Jose if they are transit or service oriented.

Sunnyvale has the opportunity to retain its home grown businesses as well as attract neighboring small service businesses by providing the prestige associated with being part of the new mall, mass transit nearby and retail services integrated within the project as well as housing at their doorsteps. It will be a tremendous advantage for the City to have such new space available.

While the office market is currently oversupplied, it is oversupplied with large buildings built for the R&D user. These buildings were not designed optimally for the smaller business owner and once the R&D market becomes healthy again, the reconfigured R&D space will be converted to its optimal use – large scale R&D space. The proposed project will not be online until 2006 to 2007, at which time we may begin to see small businesses again get squeezed out of the market.

Our vision for this project is long term, not focused on the office market conditions today which will fluctuate both up and down over the life of this project. Since the office space proposed to be located on top of the retail, it must be designed and built in conjunction with the retail. We can not wait until 2007 when it is apparent that there is a small user office space shortage to decide that additional space serving these users is necessary.

The EIR for the Downtown permits the additional 98,000 square feet requested, and in fact, Block 18 was proposed by staff to have 308,000 square feet of office because it is the appropriate planning decision for this block. Objections to the height of Mozart’s adjacent R&D buildings put pressure on downsizing the office square footage on Block 18. However, the proposed design shows lowers heights and given feedback from the April 29th Community Meeting on the proposed project, the pressure to lower the office square footage has eased in the community – no one mentioned it.

Let’s take a long term view for the City and make the appropriate planning decisions now while we can.